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A Two-Part Report: A and B

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Japan Debates Merits Of Payments Surplus

After Japan has spent years trying to reduce a bulging current account surplus, many in Tokyo have fallen under the spell of a new revisionist viewpoint. With analysts at home and abroad forecasting a global capital shortage for the next several years, some Japanese are questioning the wisdom of killing the goose of Japanese prosperity that laid the golden egg. Some foreign observers are worried that a reversal of Tokyo's policy of reducing the country's current account surplus could slow or stop government efforts to promote imports and liberalize domestic markets as well as exacerbate trade tensions with other countries. Such a reversal, however, is unlikely and unnecessary, even if Japan is to continue its role as the world's largest creditor nation.

Along with the U.S. current account deficit and the West German surplus, Japan's large current account surpluses have been branded by many economists as a disruptive factor in the global economy. Under intense foreign pressure in

Moreover, they say, the measure is inconsistent with U.S. attempts to eliminate the restrictive investment policies of other governments through multilateral negotiations, such as the Uruguay Round of the General Agreement on Tariffs and Trade. Reportedly, foreign investors concerned about the restrictions proposed by Rep. Brooks' bill unsuccessfully requested Speaker of the House Thomas Foley to remove the legislation from the House calendar.

The Thurmond bill is expected to be aired before the Senate Judiciary Committee's antitrust, monopolies and business rights subcommittee this summer. Congressional sources say that whether the benefits of the NCRA should be extended to joint production ventures with foreign participants is likely to be a sticking point as Congress works out a compromise. Given current congressional concern over lagging American competitiveness, many legislators probably will resist giving foreign companies the same breaks they are proposing for American firms. Yet Capitol Hill also is likely to weigh the benefits provided by foreign investment. As an indication of such concern the vote on the Brooks bill was conducted by voice rather than roll call to provide anonymity for legislators representing states where foreign investments are much welcomed.

Margo Grimm

Notes

FY 1990 Budget - The Y66.2 trillion ($441.3 billion at Y150=$1.00) general account budget for fiscal 1990 went into effect June 7 despite disagreement between the two houses of Japan's parliament. The House of Councillors, which is controlled by the opposition parties, rejected the spending plan drawn up by the government of Prime Minister Toshiki Kaifu and approved May 10 by the lower house where the Liberal Democratic Party holds sway. Japan's constitution stipulates that spending measures become effective 30 days after lower house approval regardless of any upper house vote. The 68-day delay before the fiscal plan took effect for the year beginning April 1 meant that the government had to compile two temporary budgets to fill the gap (see JEI Report No. 20B, May 18, 1990).

The issue that led to the delay, moreover, has not been settled. The LDP and the opposition parties will use the remainder of the current special Diet session to debate alternative proposals to amend the controversial 3 percent consumption tax. The LDP has introduced a bill that would exempt food, education and some other basic costs from the levy, while the opposition-sponsored bill would replace the consumption tax with specific commodity taxes. Since parliamentary procedures for the two bills cannot be completed in both houses by the June 26 end of the current special session, an extension will be necessary since both sides are eager to force a vote on the legislation. Given the likelihood that neither bill will gain the necessary approval of both houses (revenue measures are not covered by the constitutional rule of lower house precedence), the 3 percent tax will remain in place, unchanged. The issue is certain to come up in the next regular Diet session late this year unless the LDP can put together a majority in the upper house.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

Table 1: Japan's Foreign Direct Investment by Country, FY 1985-FY 1989

(in millions of dollars)

	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	Cumulative March 31, 1990
United States	$5,395	$10,165	$14,704	$21,701	$32,540	$104,400
Canada	100	276	653	626	1,362	4,593
North America	5,495	10,441	15,357	22,328	33,902	108,993
United Kingdom	375	984	2,473	3,956	5,239	15,793
Netherlands	613	651	829	2,359	4,547	10,072
Luxembourg	300	1,092	1,764	657	654	5,383
West Germany	172	210	403	409	1,083	3,448
France	67	152	330	463	1,136	2,899
Switzerland	60	91	224	454	397	1,829
Spain	91	86	283	161	501	1,546
Belgium	84	50	70	164	326	1,353
Italy	32	23	59	108	314	684
Europe	1,930	3,469	6,576	9,116	14,808	44,972
Indonesia	408	250	545	586	631	10,435
Hong Kong	131	502	1,072	1,662	1,898	8,066
Singapore	339	302	494	747	1,902	5,715
South Korea	134	436	647	483	606	3,854
Thailand	48	124	250	859	1,276	3,268
China	100	226	1,226	296	438	2,474
Malaysia	79	158	163	387	673	2,507
Taiwan	114	291	367	372	494	2,285
Philippines	61	21	72	134	202	1,322
Asia	1,435	2,327	4,868	5,569	8,238	40,465
Panama	1,533	2,401	2,305	1,712	2,044	14,902
Caymans	132	930	1,197	2,609	1,658	6,743
Brazil	314	270	229	510	349	5,946
Bahamas	298	792	734	737	620	3,338
Mexico	101	226	28	87	36	1,707
Bermuda	148	16	36	337	228	1,219
Netherlands Antilles	62	66	199	172	38	786
Peru	10	---	1	---	---	696
Latin America	2,616	4,737	4,816	6,428	5,238	36,855
Australia	468	881	1,222	2,413	4,256	12,394
New Zealand	23	93	121	117	101	694
Oceania	525	992	1,413	2,669	4,618	13,933
Liberia	159	289	267	648	643	4,301
Africa	172	309	272	653	671	5,275
Kuwait	34	41	54	20	32	1,415
Iran	0	---	---	1	1	1,006
Middle East	45	44	62	259	66	3,404
Total	12,217	22,320	33,364	47,022	67,540	253,896

Source: Ministry of Finance

Table 2: Japan's Foreign Direct Investment by Sector, FY 1985-FY 1989

(in millions of dollars)

	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	Cumulative March 31, 1990
Manufacturing Sector	$2,352	$3,806	$7,832	$13,805	$16,284	$66,127
Food Products	90	127	328	419	1,300	3,265
Textiles	28	63	206	317	533	3,203
Wood and Paper Products	15	57	317	604	555	2,654
Chemicals	133	355	910	1,292	2,109	8,649
Metals	385	328	786	1,367	1,591	9,261
Nonelectric Machinery	352	626	687	1,432	1,762	6,479
Electric Machinery	513	987	2,421	3,041	4,480	14,676
Transport Equipment	627	828	1,473	1,281	2,053	9,009
Other	208	435	703	4,051	1,901	8,932
Nonmanufacturing Sector	9,536	17,949	25,080	32,634	50,517	182,516
Agriculture and Forestry	12	15	97	162	151	1,205
Fisheries	42	52	44	94	47	678
Mining	598	669	511	1,013	1,262	15,211
Construction	94	250	87	309	646	2,089
Trade and Sales	1,550	1,861	2,269	3,204	5,148	25,159
Banking, Finance and Insurance	3,805	7,240	10,673	13,104	15,395	57,271
Services	665	1,560	2,780	3,732	10,616	23,375
Transportation	1,240	1,925	2,145	2,372	2,927	15,269
Real Estate	1,207	3,997	5,428	8,641	14,143	34,742
Other	322	379	1,047	3	180	7,515
Branch Offices	329	566	452	584	739	4,659
Other Transactions*	---	---	---	---	---	595
Total	12,217	22,320	33,364	47,022	67,540	253,896

*Certain overseas real estate transactions have been excluded from Japan's foreign direct investment data since December 1, 1980 because of changes in the Foreign Exchange and Foreign Trade Control Law.

Source: Ministry of Finance

Table 3: Japan's Foreign Direct Investment by Industry and Region, March 31, 1990

(in millions of dollars)

	North America	Europe	Asia	Latin America	Oceania	Africa	Middle East	Total
Manufacturing Sector	$33,529	$7,947	$15,591	$5,633	$1,919	$231	$1,276	$66,127
Food Products	1,485	311	1,049	234	177	8	0	3,265
Textiles	651	489	1,569	440	11	39	4	3,203
Wood and Paper Products	1,847	17	450	202	137	1	-	2,654
Chemicals	3,581	1,110	2,077	602	126	24	1,130	8,649
Metals	3,656	395	2,578	2,010	428	127	66	9,261
Nonelectric Machinery	3,277	1,339	1,387	393	70	1	11	6,479
Electric Machinery	8,686	2,016	3,348	536	66	8	15	14,676
Transport Equipment	4,453	1,352	1,326	1,070	786	17	4	9,009
Other	5,894	917	1,807	143	118	7	46	8,932
Nonmanufacturing Sector	73,935	35,556	24,183	31,153	11,945	5,040	705	182,516
Agriculture and Forestry	430	8	297	208	253	7	2	1,205
Fisheries	158	18	177	147	79	99	1	678
Mining	1,889	1,416	7,124	1,557	2,244	582	399	15,211
Construction	1,015	84	643	219	65	22	40	2,089
Trade and Sales	14,146	5,404	2,575	1,759	1,218	14	44	25,159
Banking, Finance and Insurance	16,998	21,258	3,588	13,715	1,554	37	123	57,271
Services	12,038	2,487	4,815	1,271	2,050	710	5	23,375
Transportation	411	157	982	10,873	142	2,702	2	15,269
Real Estate	24,637	3,669	2,351	200	3,816	69	-	34,742
Other	2,215	1,056	1,632	1,203	523	798	87	7,515
Branch Offices	1,044	1,430	654	46	62	1	1,421	4,659
Other Transactions*	485	38	37	23	7	2	2	595
Total	108,993	44,972	40,465	36,855	13,933	5,275	3,404	253,896

*Certain overseas real estate transactions have been excluded from Japan's foreign direct investment data since December 1, 1980.

Source: Ministry of Finance

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1988	1989	January-March 1989	January-March 1990	January 1990	February 1990	March 1989
Japan's Balance of Payments							
Trade Balance	$95,012	$76,917	$21,311	$14,572*	$1,079*	$5,491*	$8,002*
Exports (f.o.b.)	259,765	269,570	66,945	65,235*	18,164*	21,539*	25,532*
Imports (f.o.b.)	164,753	192,653	45,634	50,663*	17,085*	16,048*	17,530*
Current Account Balance	79,631	57,157	16,064	12,404*	-636*	4,907*	8,133*
Long-Term Capital (net)	-130,930	-89,246	-5,612	-16,428*	-2,869*	-7,969*	-5,590*
Overall Balance	-28,982	-33,286	23,954	-66	-4,525	5,216	-757
International Reserves (end of period)	97,662	84,895	99,353	73,496	82,717	80,443	73,496
Japan's Customs Clearance Trade							
Trade Balance	77,563	64,328	17,085	12,416	338	5,013	7,065
Exports (f.o.b.)	264,917	275,175	68,227	66,718	18,673	22,006	26,039
Cars	38,671	38,804	10,088	10,545	3,296	3,465	3,784
Steel	15,322	14,789	3,812	2,912	846	990	1,076
Imports (c.i.f.)	187,354	210,847	51,142	54,303	18,336	16,993	18,973
Crude Oil	18,852	21,544	5,147	6,917	2,244	2,307	2,366
Manufactured Products	91,838	106,111	25,588	27,230	9,328	8,518	9,384
Japan-U.S. Trade							
Trade Balance	47,597	44,943	11,127	8,936	2,196	2,968	3,772
Exports (f.o.b.)	89,634	93,189	22,726	21,664	6,207	7,131	8,326
Imports (c.i.f.)	42,037	48,246	11,599	12,728	4,011	4,163	4,554
Yen-Dollar Exchange Rate (average for period)	Y128.15	Y137.96	Y128.45	Y147.90	Y145.09	Y145.53	Y153.08
U.S. Trade							
Trade Balance	-118,526	-108,994	-24,477	-22,237*	-9,814	-6,209	6,214*
Exports (f.a.s.)	322,426	363,983	88,389	97,150*	30,496	30,921	35,733*
Imports (Customs)	440,952	472,977	112,866	119,387*	40,310	37,130	41,947*
U.S.-Japan Trade							
Trade Balance	-51,794	-49,002	-12,407	-9,602*	-2,860	-3,122	3,621*
Exports (f.a.s.)	37,725	44,584	10,399	11,963*	3,974	3,766	4,223*
Imports (Customs)	89,519	93,586	22,806	21,565*	6,834	6,888	7,843*

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percent change from year-earlier period unless otherwise indicated)

	1988	1989	January-March 1989	January-March 1990	January 1990	February 1990	March 1990
Discount Rate (end of period)	2.5%	4.25%	2.5%	5.25%	4.25%	4.25%	5.25%
Outstanding Money Supply	11.2%	9.9%	10.2%	11.6%	11.5%	11.8%	11.6%
Industrial Production	9.5%	6.1%	8.3%	1.8%	1.8%	3.2%	0.7%
Manufacturing Operating Rate	5.9%	2.2%	2.6%	0.3%	-1.0%	1.8%	0.1%
Number of Bankruptcies	-20.0%	-28.4%	-26.3%	-29.3%	-24.7%	-25.0%	-36.1%
Residential Construction Starts	0.6%	-1.3%	-5.6%	2.9%	6.3%	5.6%	-2.0%
Job Openings to Applications (ratio)	1.01	1.26	1.16	1.35	1.32	1.37	1.35
Nominal Wages	3.8%	4.7%	4.3%	4.9%	7.6%	3.9%	3.2%
Manufacturing Labor Productivity	11.5%	6.2%	9.9%	2.6%*	2.6%	n.a.	n.a.
Wholesale Prices	-1.0%	2.5%	0.2%	3.7%	3.7%	3.5%	3.9%
Consumer Prices	0.7%	2.3%	1.1%	3.4%	3.0%	3.6%	3.5%
Yen-Based Export Prices	-2.2%	4.4%	2.5%	6.6%	6.3%	6.0%	7.4%
Yen-Based Import Prices	-4.6%	7.7%	0.5%	12.9%	13.0%	11.8%	14.0%

*January of each year only.

For Japan's latest GNP figures, see JEI Report No. 13B, March 30, 1990.